

Message Text

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FM AMEMBASSY PARIS
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FOR COOPER AND EUR

PASS TREASURY AND AID

E.O. 11652: N/A
TAGS: OECD, EAID
SUBJECT: OECD SECRETARIAT PAPER--STEPPED-UP INVESTMENT
IN THIRD WORLD

REFS: (A) PARIS 14738; (B) PARIS 15255;
(C) DAC(78)16

1. SUMMARY: SECRETARIAT PAPER FOR DAC MEETING MAY 23
AND POSSIBLE MINISTERIAL CONSIDERATION JUNE 14-15 EX-
AMINES POSSIBLE COMPONENTS OF PROGRAM FOR LARGE INCREASES
IN RESOURCE TRANSFERS AND INVESTMENT IN THIRD WORLD.
FINANCING SOURCES WOULD INCLUDE EXPORT CREDITS, PRIVATE
INVESTMENT, OFFICIAL DEVELOPMENT AID AND INTERNATIONAL
BANKS LENDING. GENERAL INVESTMENT TARGETS SHOULD BE
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ENERGY, FOOD SECURITY, COMMODITIES AND INFRASTRUCTURE.
TECHNIQUE OF CO-FINANCING WITH INTERNATIONAL AND NATION-
AL DEVELOPMENT INSTITUTIONS IN LEAD WOULD BE MAJOR DEVICE
FOR STIMULATING SUCH A PROGRAM. WHILE BELIEVING THAT
ISSUES POSED ARE OBVIOUSLY NOT RIPE FOR MINISTERIAL DE-
CISION, WE BELIEVE DAC SHOULD HOLD PRELIMINARY DISCUS-
SIONS, AS PLANNED, OF THE ISSUES AND A REVISED CRISPER

PAPER SHOULD BE PREPARED FOR POSSIBLE SUBMISSION TO
MINISTERS FOR CONSIDERATION. END SUMMARY

2. THE SECRETARIAT HAS NOW COMPLETED ITS DRAFT PAPER--
DAC(78)16--ON ELEMENTS OF A PROGRAM OF STEPPED-UP INVEST-
MENT TO THE THIRD WORLD FOR CONSIDERATION AT THE DAC
MEETING OF MAY 23 AND FOR POSSIBLE INCLUSION IN SOME FORM
AS AGENDA ITEM FOR DISCUSSION AT THE OECD MINISTERIAL,
JUNE 14-15. IT IS OUR UNDERSTANDING THAT IT IS SECGEN'S
INTENTION TO GO TO MINISTERIAL WITH ISSUE AS MODIFIED BY
DISCUSSION IN THE DAC, POSSIBLY PREPARING REVISED PAPER.
THE PAPER, DESCRIBED AS PRELIMINARY REVIEW OF SELECTED
ELEMENTS OF STEPPED-UP INVESTMENT IN CONTEXT OF INTER-
DEPENDENCE, HAD ITS ORIGINS IN VIEW THAT THERE MUST BE
POLICIES BY WHICH ONE COULD RESOLVE SEEMING PARADOX IN
NORTH/SOUTH RELATIONS THAT THE DEVELOPED WORLD HAS CON-
SIDERABLE VOLUME OF UNUSED RESOURCES AND DEVELOPING WORLD
HAS A SUBSTANTIAL VOLUME OF UNSATISFIED DEMANDS. THE
SECRETARIAT, WHILE NOTING BENEFICIAL EFFECTS OF SUCH IN-
VESTMENTS ON DEMAND IN DEVELOPED WORLD, CONCLUDES THAT
PRINCIPAL CASE FOR SUCH INCREASED INVESTMENTS SHOULD BE
JUDGED ON ITS OWN MERITS, I.E. "NOT IN TERMS OF A MAJOR
CONTRIBUTION TO THE RECOVERY PROCESS IN THE DEVELOPED
WORLD." NEVERTHELESS THROUGHOUT THE PAPER THEY NOTE THE
BENEFITS ACCRUING TO OECD MEMBERS FROM THE NON-INFLATION-
ARY EXPANSION OF DEMAND IN SUCH A PROGRAM.
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3. THE SIX PRIMARY ELEMENTS OF A POSSIBLE PROGRAM ARE:

-L) TO INITIATE A MAJOR INCREASE IN INVESTMENT FLOWS
FROM THE OECD AND SURPLUS OPEC COUNTRIES FOR DEVELOPMENT
WITHIN THE THIRD WORLD COUNTRIES SO AS TO STIMULATE DE-
MAND AND INCREASE PRODUCTION IN BOTH LDC'S AND DEVELOPED
COUNTRIES IN A MANNER CONSISTENT WITH MUTUALLY BENEFIC-
IAL STRUCTURAL CHANGES IN THE GLOBAL ECONOMY;

--2) TO CARRY OUT THIS INVESTMENT OVER A MEDIUM-TERM
PERSPECTIVE--3 TO 5 YEARS;

--3) TO THEREBY ADD PERHAPS \$20 BILLION IN VARIOUS FORMS
IN CAPITAL FLOWS; WHILE NOT VERY LARGE IN RELATIVE TERMS
SUCH INCREMENT COULD WELL PROVE TO BE AN IMPORTANT
STIMULUS (VIA CONFIDENCE BUILDING) TO GENERAL EXPANSION
OF THE WORLD ECONOMY;

--4) TO PUT MAJOR EMPHASIS UPON MOBILIZING PRIVATE CAPI-
TAL FLOWS INTO PRODUCTIVE INVESTMENTS (ESPECIALLY
ENERGY AND RAW MATERIALS), BUT WITH INCREASING INVEST-

MENT ALSO IN FOOD PRODUCTION AND INFRASTRUCTURE. IN

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POOREST COUNTRIES ODA WOULD HAVE AN INCREASING ROLE;

--5) TO SEEK MOBILIZATION OF SURPLUS SAVINGS THROUGH THE
FOLLOWING METHODS:

--A) MAJOR EXPANSION OF CO-FINANCING OPERATIONS BETWEEN
MULTILATERAL AND BILATERAL DEVELOPMENT INSTITUTIONS WITH
PRIVATE BANKS;

--B) EXPANSION OF EXPORT FINANCE;

--C) EXPANSION OF PRIVATE INVESTMENT WITH FURTHER GOV-
ERNMENT GUARANTEES;

--D) BUILD UP CALLABLE CAPITAL OF WORLD BANK AND OTHER
INTERNATIONAL DEVELOPMENT LENDING GROUPS;

--E) INCREASE ODA.

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--6) TO OBTAIN THIRD WORLD SUPPORT BY EARLY CONSULTATION ON A COLLABORATIVE APPROACH TO IMPLEMENTATION OF THE PROPOSAL.

4. THE INCREASED VOLUME OF RESOURCES COULD BE CHANNELLED INTO FOUR PRINCIPAL SECTORS, EACH OF WHICH HAS ALREADY BEEN THE OBJECT OF INTENSIVE INTERNATIONAL SCRUTINY:

--A) ENERGY

--B) FOOD SECURITY

--D) INFRASTRUCTURE (PARTICULARLY THAT IN AFRICA).

THE PAPER NOTES THAT ADDITIONAL NEEDS OF AT LEAST \$25 BILLION A YEAR HAVE BEEN IDENTIFIED IN THESE AREAS BY, AMONG OTHERS THE WORLD BANK, EVEN WITH LIMITED PROVISION FOR ASSOCIATED INFRASTRUCTURE.

5. THE SECRETARIAT ARGUED THAT THE MAIN INITIATORS--THE CUTTING EDGE--OF THE PROGRAM SHOULD BE THE INTERNATIONAL AND NATIONAL DEVELOPMENT INSTITUTIONS ACTING TO INCREASE THEIR SUPPORT FOR THIRD WORLD INVESTMENT, USING CO-FINANCING MECHANISMS. THEY SUGGEST THAT IN AT LEAST FOUR RESPECTS QUICK RELEASE OFFICIAL FINANCING WILL BE ESSENTIAL: A) ODA FINANCING OF PROJECT PREPARATION, B) SUPPORT OF FOOD PRODUCTION AND INFRASTRUCTURE IN LEAST DEVELOPED COUNTRIES, C) INCREASED EXPORT CREDITS OR GUARANTEES FOR PRIVATE INVESTMENT AND D) ADDITIONAL CAPITAL SUBSCRIPTIONS TO THE WORLD BANK.

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6. AN ILLUSTRATIVE PACKAGE OF \$10 BILLION IS SUGGESTED IN WHICH INCREMENTAL EXPORT CREDITS WOULD ACCOUNT FOR 30, PRIVATE INVESTMENT 40, BILATERAL AID 5, INTERNATIONAL LENDING INSTITUTIONS 15 AND OPEC 10.

7. THE SECRETARIAT DOES EMPHASIZE THE HIGHLY TENTATIVE CHARACTER OF THEIR PRESENTATION AND CLEARLY SIGNALS THE PROBLEMS OF ORGANIZING SUCH AN APPROACH. THEIR VIEW, HOWEVER, IS THAT SOME SUCH PROGRAM IS VIRTUALLY INEVITABLE AND THAT ONE SHOULD MOVE RAPIDLY AHEAD WITH

THE STUDY PROCESS, IF FOR NO OTHER REASON, TO TAKE THE INITIATIVE IN FORMULATING A "BOLDER AND MORE SERIOUS CONTRIBUTION TO WORLD ECONOMY RECOVERY." THE SECRETARIAT SUGGESTS THAT THE PRACTICABILITY OF THE PROPOSAL IS A MATTER OF "POLITICAL WILL, PARTICULARLY IN THE NORTH."

8. COMMENT: IN OUR JUDGMENT THE PAPER IS STILL IN A PRELIMINARY STATE, AND GIVES EVIDENCE OF THE GREAT TIME PRESSURE UNDER WHICH THE SECRETARIAT HAS WORKED. IT DOES NOT THEREFORE CONSTITUTE THE BASIS FOR ANY HARD MINISTERIAL AGREEMENT ON A PROGRAM. WE ARE FOUR WEEKS FROM THE MINISTERIAL, A PERIOD FILLED WITH OTHER WORK ON THE AGENDA. UNDER THIS CIRCUMSTANCE WE SEE LITTLE POSSIBILITY OF ADEQUATELY PERFORMING THE KINDS OF ANALYSIS WHICH THE SUBJECT MATTER REQUIRES BEFORE GOVERNMENTS COULD ACTUALLY AGREE ON ANY ACTION PROGRAM.

9. A SECOND QUESTION IS WHETHER WE SHOULD THEN EVEN ENCOURAGE THE SECRETARIAT ACTIVELY TO PURSUE THE SUBJECT FOR PRESENTATION TO THE MINISTERIAL MEETING. RESOURCE TRANSFERS WILL CONTINUE TO BE A MAJOR ASPECT OF

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THE NORTH/SOUTH DIALOGUE; HENCE, THIS PROPOSAL COULD PROVIDE A USEFUL FOCUS FOR OECD WORK ON THIS SET OF ISSUES.

MOREOVER, IT WOULD ALSO STIMULATE AN INTER-DISCIPLINARY APPROACH WITHIN THE ORGANIZATION. WE THEREFORE SUPPORT A POSITIVE RESPONSE AS APPROPRIATE IN THE DAC HIGH LEVEL MEETING, URGING THAT A SHORTER, CRISPER DISCUSSION PAPER BE PREPARED FOR POSSIBLE SUBMISSION TO MINISTERS, WITH THE RECOGNITION THAT SUBSTANTIAL ANALYSIS AND DELIBERATION WILL BE ESSENTIAL BY THE ORGANIZATION BEFORE ANY ACTION-ORIENTED IDEAS CAN BE CONSIDERED.

10. ON THE SUBSTANCE WHICH THE DAC IS TO REVIEW MAY 23, SEVERAL ISSUES SHOULD BE FLAGGED:

--A) THE REACTIONS OF THE THIRD WORLD TO ANY ORGANIZED, LET ALONE MASSIVE PROGRAM OF EXPANDING INVESTMENT CHARACTERIZED BY HEAVY EMPHASIS ON THE PRIVATE NATURE THEREOF COULD BE POLITICALLY VERY NEGATIVE, ENGENDERING VARIOUS FORMS OF OPPOSITION. AT THE SAME TIME IN UNCLASSIFIED

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MANY LDC'S INTEREST IN INSTITUTIONAL APPROACHES TO THE MARSHALLING OF DC AND OPEC SAVINGS AND THE TRANSFORMATION OF THESE INTO INVESTMENT IS GREAT. THE DISCUSSION OF POSSIBLE APPROACHES WITH SELECTED LDC REPRESENTATIVES COULD BE VERY USEFUL PRECEDING OR PARALLELING OECD DISCUSSION.

--B) ALTHOUGH THE PAPER DOES SPEAK OCCASIONALLY OF THE RICHER AND POORER AMONG THE LDC'S, BASICALLY IT SEEMS TO TAKE RELATIVELY LITTLE COGNIZANCE OF THE INCREASINGLY DIFFERENTIATED NATURE OF THE THIRD WORLD. A FAR MORE EXPLICIT ANALYSIS OF THIS DIFFERENTIATION AND THE IMPLICATIONS THEREOF FOR ANY PROGRAM ACTIVITY WOULD CERTAINLY BE IN ORDER;

--C) THE PRINCIPAL DEVICE FOR ACTIVATING THE PROGRAM WOULD BE AN INTENSIFICATION OF CO-FINANCING SCHEMES, AN EFFORT TO BE LED BY THE NATIONAL AND INTERNATIONAL DEVELOPMENT INSTITUTIONS. WHILE WE UNDERSTAND THAT THE EUROPEANS DO A CONSIDERABLE VOLUME OF SUCH CO-FINANCING ON A BILATERAL BASIS ALREADY, WE ARE A LITTLE PUZZLED AS TO THE ROLE ENVISAGED FOR THE MULTILATERAL INSTITUTIONS. THE DATA IN THE DOCUMENT ITSELF SUGGEST THAT DURING THE PAST FIVE YEARS, THE LEVEL OF PRIVATE RESOURCES PULLED INTO JOINT OPERATIONS WITH THE INTERNATIONAL GROUPS HAS MOVED RATHER ERRATICALLY RELATIVE TO THE AMOUNTS THESE INSTITUTIONS THEMSELVES HAVE PUT INTO THE VENTURES. MOREOVER, GIVEN OUR UNDERSTANDING THAT THE U.S. HAS ALREADY CAUTIONED THE WORLD BANK TO MODERATE ITS GROWTH OVER THE NEXT FEW YEARS, WE PRESUMABLY MIGHT HAVE A SPECIAL PROBLEM WITH THE PROPOSAL THAT WORLD BANK

CALLABLE CAPITAL BE SUBSTANTIALLY EXPANDED OVER THE
3-5 YEAR TIME FRAME.
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